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Although Brazilian presidential hopeful Dilma Rousseff failed to win an outright victory in last weekend’s election, outgoing President Luiz Inácio Lula da Silva’s succession plans are still on track and investors have no reason to be concerned, according to experts.

‘Lula is so popular that it is highly likely his chosen successor will win,’ said Urban Larson, director of emerging equities and Latin America specialist at F&C Investments.

‘Investors are neither particularly excited nor particularly worried about Dilma. It remains probable that Lula will still be involved behind the scenes. Nevertheless if Dilma’s opponent José Serra were to win (not likely), this would be received positively by the markets. At a minimum the fact that Dilma did not win in the first round while the opposition did well in several key state elections makes it more likely that she will need to govern from the centre,’ he explained.

What matters is that Brazil, which represents two thirds of the Latin American market index, has developed significantly since Lula’s first election in 2002. ‘Brazil used to finance itself on the overnight credit markets. Now it is an international creditor and is issuing 20 or 30 year government bonds. Inflation is now entrenched in the 4 to 5% range,’ added Larson.

‘Lula realised in 2002 that he wasn’t going to win unless he stopped frightening the middle classes. He has delivered economic stability and social mobility, lifting a lot of Brazilians out of poverty, which in turn drives domestic demand,’ said Larson.

He believes that many people are unaware of how domestically driven the Brazilian economy is. ‘Commodity strength keeps the Brazilian currency strong, but commodities are more important in the benchmark Bovespa index, roughly 50% of the index is commodity stocks, than in the economy. Commodity exports are only about 8% of GDP,’ he added.

Larson said the domestic demand story is one of the things that makes Brazil such an exciting market, though he conceded it would not be immune to a general rise in risk aversion globally. ‘Eleven million Brazilians will go on an airplane for the first time this year. Brazil did not have a financial crisis along with the developed world. It is underleveraged and domestic demand is strong. The risks to Brazil, and to Latin American markets as a whole, are mainly external,’ he added.

Meanwhile Chris Palmer, head of global emerging markets at Gartmore, believes that the Green party will transfer most of their vote to the PT party which will give Rousseff a comfortable majority.

‘I is an important sign of the times that 20% of the voters voted for the Green party. Clearly, the importance of the environment is growing within Brazil,’ he said.

Palmer notes that one significant differentiating factor between the two main parties is that Rousseff has already articulated plans to raise the rate of public and private fixed capital investment, in particular in infrastructure assets. Palmer believes that ‘this will accelerate the rate of investment and is likely to lift Brazil’s GDP growth rate in 2011 and 2012 above the present forecast of 4.5%’.

Investors in Brazil are likely to benefit more from companies linked to domestic demand instead of commodities, which were the main drivers of the country’s economic expansion until now, according to BNY Mellon ARX Investimentos, the Brazilian investment specialist for BNY Mellon Asset Management.

A recent white paper published by BNY Mellon ARX forecasts strong growth in domestic demand, and makes particular note of companies in the food and financial services sectors. The growing consumption is being powered by rising standards of living, positive demographic conditions and improved social mobility, the paper notes.

In addition, Brazilian consumers are not burdened by excessive debt and have the capability of borrowing more, which contrasts with consumers in developed world countries. It concludes that Brazil has the potential to achieve GDP) growth of approximately 5.5% annually in real terms.